

## J. Michael Locke Musings

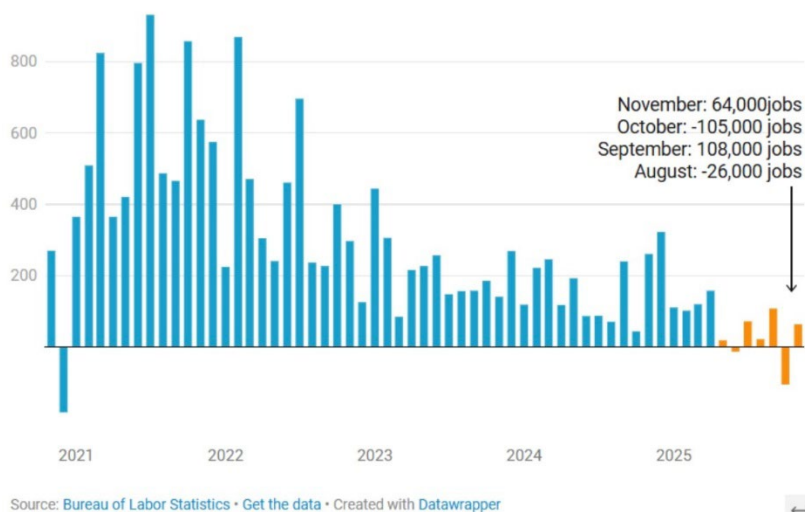
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### #271: Musing December 20, 2025

Watch the deteriorating labor market. Ai has every business owner holding back on hiring and even thinking about reductions. Volatile tariff policy is exacerbating the “risk off” dynamic by creating unknowns. According to a Business Roundtable survey, more CEOs plan on reducing headcount compared to adding to it for the third straight quarter. If you have a good job, be thankful. If you are looking, get employed now. Look at this graph on new jobs.

#### The US economy has barely added any jobs since April

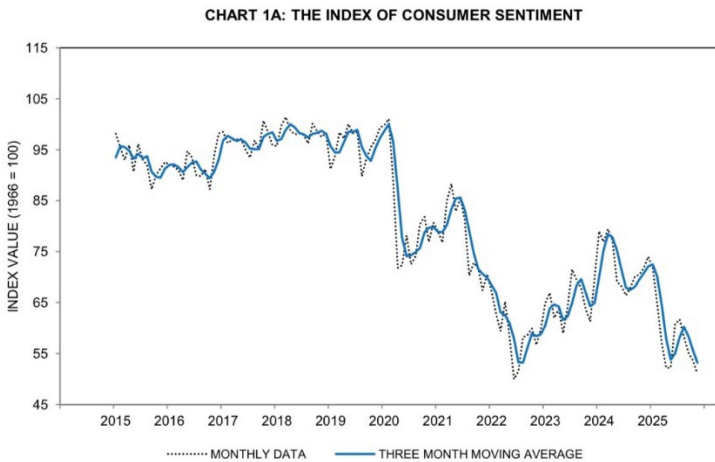
Unemployment is now 4.6%, up from 4.1% in June.



One positive of a soft labor market is that interest rates will likely continue to come down and this will help our federal fiscal debacle (also helps that there has been a big decline in federal government employment.) The US is increasingly financing its debt with shorter term notes (T-Bills now reflect 69.4% of all Treasury issuances). A record \$25 trillion T-Bills were sold in the last year. God forbid rates go up as T-Bills must get refinanced in a matter of months.

Trump is kind of screwed on prices. Inflation is the rate of price increase (November CPI grew at a 2.7% annual rate). Inflation coming down is not prices coming down. Generally, prices don't go down (maybe a specific category or product but not broad based). Economic leaders work hard to not allow deflation as consumers stop spending if they think prices are going to come down and you end up with severe economic contraction. So basically, stop looking for prices to come down. It is not going to happen. Japan shows what happens when you have deflation with the “lost decades” where there was no economic growth. Japan is only now getting interest rates to 2% for first time in 30 years.

I heard three economic reporters recently describe our economy as: uncertain, meh and asymmetrical. The K-shaped economy which I wrote about weeks ago is reducing the utility of some measures. Look at the widely tracked University of Michigan consumer sentiment chart which shows the measurement at some of its lowest rates ever. Still, consumption is growing and keeping GDP growing because a smaller number of wealthier consumers have the spending power. There are a lot more people at the bottom of the K than at the top for the Michigan index.



One of the drivers of our federal fiscal debacle is the inherent challenge in taking away things. Once a benefit is rolled out, it is hard to take it back – whether a government program or a company employee benefit. It is not widely reported that the Obamacare subsidies which are expiring at the end of the year are not the original subsidies but enhanced ones that were added as a response to the Covid pandemic. They were supposed to be temporary but the argument is now about taking something away. Remote work is another example. Human beings work best collaboratively when in person but now companies are struggling to go back to the office. Need to be extra vigilant before you introduce a new benefit because you are likely to be stuck with it forever.

The rise of the private capital markets is stunning whether you are talking private equity or private credit. Some of it is driven by the burdensome regulations put on the public market but private markets are only accessible by some. So much action there now that index provider MSCI has launched a global benchmark incorporating both public and private equities, as investors increasingly look to private markets to boost returns and diversify their portfolios. From Bloomberg: *“The MSCI All Country Public + Private Equity index will allocate a 15 per cent weighting to private equity. It combines MSCI’s All Country World Investable Equity index, which contains 8,300 listed companies — 99 per cent of developed and emerging markets listed stocks — with a newly launched All Country Private Equity index. The latter tracks the valuations of 10,000 private equity funds globally.”* Regulations are changing to allow individuals to buy private equity through their 401(k).

Even the real estate market has a developing private market. The largest company of real estate agents (Compass) now proposes a sale process where you start by only marketing your home within the Compass network, then can go to its website and only if still not happy do you put it on MLS. You can no longer go to Zillow and assume you are seeing everything. The founder of Compass is challenging the assumption that a broad public auction is the only way to maximize price. Some investment bankers are doing to same thing, only marketing companies to a select group of buyers and not to “everyone” like in the past.

When investing, there are two key components – getting the direction right AND the timing. I think there is a broad consensus of the market being overbought right now and some “bubble” in Ai but if you rotated out months ago you have missed some material return. You have to get the timing right as well. Webvan was right on delivering groceries to the home but they were too early in predicting the changed human behavior and went bankrupt. After you develop your conviction on what is going to happen, focus on when it will happen.

I love how technology is providing for a more capital efficient world as excess capacity gets redistributed. Think of all of the value sitting in empty vacation homes (enter AirBNB), unused parking lot spaces (enter Spothero) or cars sitting in the office parking lot – enter Tesla? Apparently, Musk is going to make it that you can take your self-driving Tesla and drop it into the taxi pool when you aren't using it. So you drive your car to work and then flip it into taxi mode. It will go around picking up fares like Waymo and be back at 6:00pm when you need to go home and you make some extra money while you worked.

History is not treating me well on my negative comments about Google a couple months ago...basically, I was wrong. I saw standard search practices moving to AI chatbots and predicted a decline in Google's core ad business. Well, now Google is running the table. It is almost unanimous that their latest AI model is far ahead of all others. The leader of OpenAI which makes ChatGPT even declared a “code red” to focus his organization on catching back up. This gets back to my earlier writing about the power of rivalries to motivate people.

I don't know where the world is going with Ai but I say embrace it don't fight it. Ai fluency should become a gened in higher education as should customer service / communication skills. Humans will need to be able to leverage technology and then deliver outcomes to people — so the radiologist uses Ai to do first read of a film and then delivers the diagnosis to the patient with a human touch. Some say AI is making us dumb since it gives all of the answers but other technology developments were similarly discussed. See a great article by Andy Kessler from the WSJ after my initials at the end.

Scott Galloway calls the Ai arms race with corresponding data center buildout an hallucination. *“OpenAI is promising Oracle \$300 billion — money it doesn't have — for infrastructure Oracle hasn't built. We can't see the actual contract, but this is BS. The greatest AI hallucination yet is the assumption that in the next few years we're going to build anywhere near the required grid and power capacity. OpenAI needs 20% of current U.S. electric capacity — equivalent to 250 nuclear power plants — at a cost of \$10 trillion. There's a five- to eight-year wait to connect a new data center to the grid.”*

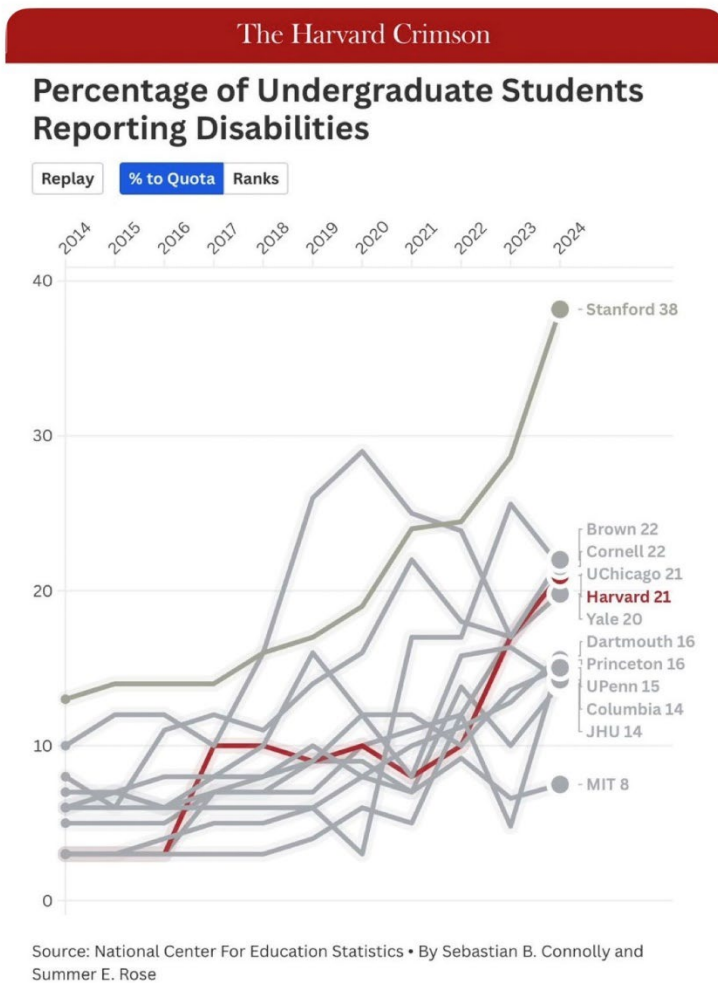
Are we losing the basic construct of human connectivity? Technology is making it easier to do everything by your phone. I was recently with someone who ordered from Starbuck's on the app while we stood outside the door of the coffee shop because it was simpler not to talk to someone. You have to really push to get a young person to call a customer service phone number. Not healthy.

Good quote from Patrick Branham on the relative value on accounting vs FP&A (financial planning and analysis). Tremendous value in telling me tomorrow's winning lottery ticket numbers (FP&A) but no value in telling me yesterday's winning numbers (accounting). Accounting does have value as you need to close the books and have good accounting records but too much time is focused “looking back” and more should be focused on financial forecasting, looking ahead and modeling scenarios.

Great innovation by Spotify and Oura. Last week, everyone is talking about their Spotify year in review (my top bands were Lake Street Dive and Charles Wesley Godwin). My “listening age” was 37. Don’t even know what that is. They invented the concept as did Oura with its “sleep score” that people talk about every day.

Last time, I wrote about the excessive growth of therapy. One byproduct is the gaming of accommodations in education. A recent article in the Atlantic called it the “Accommodation Nation.” At one affluent suburb of Chicago, over 20% of students got extra time on their SAT. At one law school, 45% of students receive academic accommodations. Our daughter’s college gives priority for in person courses so our daughter is sitting on campus in online courses. From the Atlantic article: *“You hear ‘students with disabilities’ and it’s not kids in wheelchairs.....It’s just not. It’s rich kids getting extra time on tests.” Even as poor students with disabilities still struggle to get necessary provisions, elite universities have entered an age of accommodation. Instead of leveling the playing field, the system has put the entire idea of fairness at risk.*”

Here is a graph from the Harvard student newspaper on the percentage of students with reported disabilities (thanks Chance McNamara):



I learned a new word – Docility. Usually you think of docile as passive but docility relates to the openness to be taught even if talented. You want to hire smart people who also love to learn and are intellectually curious.

Great quote from a senior executive – “how you do something is how you do everything.” Don’t blow off small things such as spelling miscues, an unorganized desk or being late for a meeting. The likely show the core personality.

People are becoming too complacent about marijuana risk. It has been proven to cause psychosis. Today’s dope is also far more potent with increased purity. Trump going to change the federal classification from Schedule I to Schedule III. According to the Drug Enforcement Administration, *‘Schedule I applies to substances with “no currently accepted medical use and a high potential for abuse” — the agency’s most stringent classification, which is also for heroin, LSD and ecstasy in addition to marijuana. In contrast, examples of Schedule III substances include certain products containing codeine, anabolic steroids and certain stimulants.’*

Investors have been all over the trend to the “Humanization of Pets.” We now have pet insurance, pet cemeteries, pet day spas, and fresh gourmet dog food. Can’t say our mother believed in this concept – we had three sequential golden retrievers growing up and our mom just gave the new one the same name as the old one that had just passed. Missy didn’t even get a roman numeral – I think there were 3 or were there 4?

In this Christmas season, lets us reflect on “Jetway Jesus.” Love this from the WSJ: *“Social media is buzzing over “miracle flights,” where able-bodied passengers board in wheelchairs to skip security lines and snag overhead bin space. Dubbed “Jetway Jesus,” the ruse often ends upon landing. Once travelers realize they must wait for assistance to disembark, the “healing” begins and they walk off unaided. With no proof of disability required, some flights see up to 50 wheelchair requests for just 130 seats. Some people are even boasting online about the trick as the ultimate travel hack.”*

Merry Christmas

Jml

*Is AI Making Us Dumb?*

Andy Kessler from WSJ

A June study from MIT Media Lab suggests that using ChatGPT to write essays results in “cognitive debt,” a fancy way to say that artificial intelligence makes you dumb. Critics of AI and social media regularly throw around terms like “continuous partial attention.” Or “brain rot.” In a Substack article on our “stupidogenic society” (more on that later), one commenter states, “Our society has become so smart we truly are stupid.” Ouch. But are we?

We’ve heard all this before. The Atlantic asked in 2008, “Is Google Making Us Stupid?”—which I found from a Google search. My parents called television the “idiot box,” a term coined in the mid-1950s. Calculators, cars and probably candles and the abacus were considered a menace to society.

Still, the antitechnology backlash grows. We know that intelligence scores from 1932 to 1978 increased about three points every decade, the Flynn Effect. Each generation gets smarter. That’s too short for

evolution, so scientists credit better nutrition or reduced exposure to lead. But IQ score growth slowed in teenagers starting in the 1990s and again in the 2000s. Hmmm, must be PCs and that darn internet.

In 2023 Northwestern researcher Elizabeth Dworak discovered a “reverse Flynn effect,” with youth scores dropping from 2006 to 2018 in three out of four “cognitive domains.” Facebook was released to the general public in 2006. The iPhone was introduced in 2007. It’s obviously their fault, right? Well, IQ scores are notoriously fickle.

Critics love to claim that technology enables addiction, anxiety, dopamine hits and doom-scrolling. A Guardian article that asks if we’re living in a golden age of stupidity includes this juicy quote: “It’s only software developers and drug dealers who call people users.” OK, then!

Washington University researcher Scott Marek has cast doubt on the dopamine claim. No matter—technology is always to blame. But remember, correlation isn’t causation. Recently Kim Kardashian, who has 354 million Instagram followers and just failed the California bar exam, revealed that scans showed troubling holes of “low activity” in her brain. Will social media be blamed? Almost guaranteed.

This summer, Daisy Christodoulou asked on Substack, “Are we living in a stupidogenic society?” The idea is that technology makes it easy for us to be stupid, similar to an obesogenic society when a move from human labor to machines (allegedly) made it easy to be overweight. Now we have “thinking machines,” so it’s easier than ever to be dumb.

Artificial general intelligence is moments away, they say, and we’ll all soon be dumber than ChatGPT. How come no one talks about the opposite—about a “smartogenic” society? Yes, by harnessing search and generative AI, it’s easier than ever to be smart. Too positive.

Instead, grumpy naysayers say our brains conduct “cognitive offload.” A paper titled “The Memory Paradox” states that “frequently offloading cognitive work to devices may cause certain ‘mental muscles’ to atrophy.” Mental muscles? That certainly sounds scientific. And Lane Brown, in New York magazine on “The Stupiding of the American Mind,” thinks as our influence circle expanded from family, co-workers and friends to unwashed strangers posting nonsense on social media that we’ve all had a “crowdsourced lobotomy.”

Hard to argue, except—remember that reverse Flynn effect? The one area where scores went up was 3-D rotation and spatial reasoning. Is that from a generation playing videogames like “Call of Duty”? Probably, but few point this out. Maybe Forrest Gump was right: “Stupid is as stupid does.” Everyone can be smart. Global literacy was 12% in 1820. Were the rest unintelligent? Stupid? Hardly. Literacy is now 87%. Sal Khan, the founder of Khan Academy, told me that if we put our mind to it, everyone is educable in every subject. Yes, worldwide math scores have been down for 20 years. Many students at the University of California, San Diego, can’t even do third-grade math. But that’s an indictment of our educational system, not technology.

Jonathan Haidt had a moment last year with his book “The Anxious Generation: How the Great Rewiring of Childhood Is Causing an Epidemic of Mental Illness.” His plan to save our children: Limit smartphones. Ban social media before 16. More independence and free play. He might add going back to living in caves.

We need to fight fire with fire. Social media is fun and addictive. But the real world and jobs are technology-dependent and getting more so. AI is a productivity powerhouse. Rather than shielding

youth from the future, make education as fun and addictive as technology, social media and AI.

Let's face it, education hasn't changed much since Miss Crabtree in the 1930s "The Little Rascals." Embrace technology. Don't ban it. Revamp teaching to leverage ChatGPT rather than block it. Go toe to toe with addictive social media. ChatGPT won't make us dumb and dumber unless we let it. Instead, adopt and adapt AI to create an anti-dumb "smartogenic" society.